

**SOUTH O'BRIEN
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2008 Election)		
John Friedrichsen	President	2008
Sue McCauley	Vice President	2011
Kevin Nelson		2009
Lori Burmakow		2009
Phil Syndergaard		2008
Brian Massman		2008
Brian Schimmer		2009

(After September 2008 Election)

John Friedrichsen	President	2011
Sue McCauley	Vice President	2011
Kevin Nelson		2009
Lori Burmakow		2009
Todd Faust		2011
Brian Massman		2011
Brian Schimmer		2009

School Officials

Richard Nervig	Superintendent
Sharla Rupert	District Secretary
Marty Weber	District Treasurer

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report

To the Board of Education of
South O'Brien Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of South O'Brien Community School District, Paullina, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of South O'Brien Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2010 on our consideration of South O'Brien Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

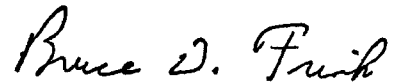
Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South O'Brien Community School District's basic financial statements. The financial statements for the five years ended June 30, 2008 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Bruce D. Frink". The signature is written in a cursive, flowing style.

BRUCE D. FRINK
Certified Public Accountant

March 29, 2010

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

South O'Brien Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased slightly from \$6,143,778 in fiscal 2008 to \$6,211,995 in fiscal 2009, while General Fund expenditures increased from \$6,117,759 in fiscal 2008 to \$6,285,882 in fiscal 2009. The District's General Fund balance decreased from \$1,281,619 in fiscal 2008 to \$1,211,870 in fiscal 2009 is a 4% decrease.
- There was only a slight increase in General Fund revenues. The increase in expenditures is partly because of the 4% negotiated increase in salaries.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of South O'Brien Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report South O'Brien Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the Student Activity and fiduciary funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
GASB 34 South O'Brien Community School District Annual Financial Report

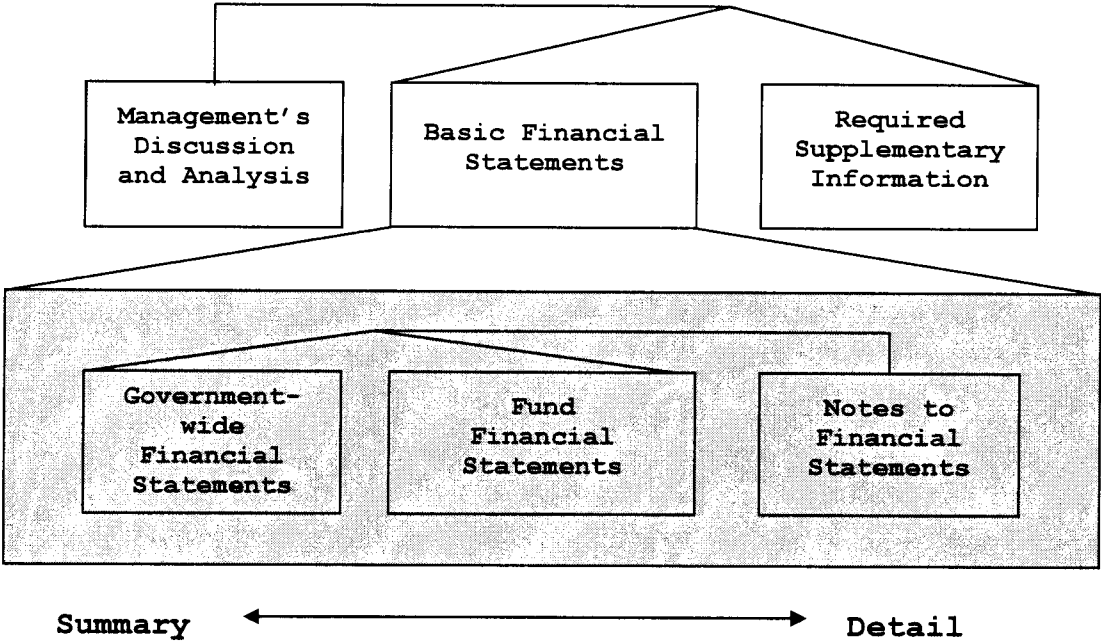


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students and the South O'Brien Foundation in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2009 compared to June 30, 2008.

<p align="center">Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)</p>							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-2009
Current assets	\$ 5,926	5,873	56	53	5,982	5,926	0.94%
Capital assets	4,669	4,600	57	14	4,726	4,614	2.43%
Total assets	<u>10,595</u>	<u>10,473</u>	<u>113</u>	<u>67</u>	<u>10,708</u>	<u>10,540</u>	<u>1.59%</u>
Current liabilities	3,457	3,431	11	2	3,468	3,433	1.02%
Non-current liabilities	1,978	2,598	-	-	1,978	2,598	-23.86%
Total liabilities	<u>5,435</u>	<u>6,029</u>	<u>11</u>	<u>2</u>	<u>5,446</u>	<u>6,031</u>	<u>-9.70%</u>
Net Assets							
Invested in capital assets, net of related debt	2,889	2,522	57	14	2,946	2,536	16.17%
Restricted	1,083	706	-	-	1,083	706	53.40%
Unrestricted	1,188	1,216	45	51	1,233	1,267	-2.68%
Total net assets	<u>\$ 5,160</u>	<u>4,444</u>	<u>102</u>	<u>65</u>	<u>5,262</u>	<u>4,509</u>	<u>16.70%</u>

The District's combined net assets increased by 16.7%, \$750,000 over the prior year. The largest portion of the District's net assets is invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$377,000 or 53% from the prior year.

Unrestricted net assets the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements decreased approximately \$34,000 or 3%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-4							
Changes in Net Assets							
(Expressed in Thousands)							
Governmental Activities		Business type Activities		Total School District		Total Change	
2009	2008	2009	2008	2009	2008	2008-2009	
\$ 204	350	120	126	324	476	-31.93%	
1,316	986	128	124	1,444	1,110	30.09%	
2,728	2,695	-	-	2,728	2,695	1.22%	
570	242	-	-	570	242	135.54%	
486	377	-	-	486	377	28.91%	
2,381	2,538	-	-	2,381	2,538	-6.19%	
21	87	-	-	21	87	-75.86%	
3	17	-	-	3	17	-82.35%	
<u>7,709</u>	<u>7,292</u>	<u>248</u>	<u>250</u>	<u>7,957</u>	<u>7,542</u>	<u>5.50%</u>	
4,446	4,411	-	-	4,446	4,411	0.79%	
1,915	1,999	-	-	1,915	1,999	-4.20%	
-	-	245	251	245	251	-2.39%	
618	582	-	-	618	582	6.19%	
<u>6,979</u>	<u>6,992</u>	<u>245</u>	<u>251</u>	<u>7,224</u>	<u>7,243</u>	<u>-0.26%</u>	
\$ 730	300	3	(1)	733	299	145.15%	

Property tax, income surtax, local option sales and state grants accounts for state aid account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

Governmental Activities

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenses, for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands)						
Total Cost of Services			Net Cost of Services			
		Change			Change	
	2009	2008	2008-2009	2009	2008	2008-2009
Instruction	\$ 4,446	4,411	0.79%	3,203	3,400	-5.79%
Support services	1,915	1,999	-4.20%	1,898	1,926	-1.45%
Other expenses	618	582	6.19%	358	330	8.48%
Totals	\$ 6,979	6,992	-0.19%	5,459	5,656	-3.48%

For the year ended June 30, 2009:

- The cost financed by users of the District's programs was \$204,305.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$804,854.
- The net cost of governmental activities was financed with \$3,297,455 in property and income surtaxes and \$2,380,429 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2009 were \$247,333 and expenses totaled \$244,727. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, South O'Brien Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,216,999, below last year's ending fund balances of \$2,047,711.

Governmental Fund Highlights

- The General Fund balance decreased slightly from \$1,281,619 in fiscal 2008 to \$1,211,870 in fiscal 2009.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$131,012 in fiscal 2008 to a balance of \$190,199 in fiscal 2009.
- The Capital Projects Fund balance increased from \$508,593 at June 30, 2008 to \$662,220 on June 30, 2009.

Increase in PPEL and Capital Projects fund balances is mostly due to the roofing project that was not needed due to warranty on existing roof of the Paullina facility.

Proprietary Fund Highlights

School Nutrition Fund net assets increased slightly from \$99,504 at June 30, 2008 to \$102,110 at June 30, 2009.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year. The District did not exceed the budgeted expenditure amounts or the unspent authorized budget during fiscal 2009.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District has invested \$9,943,816 in a broad range of assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. Total depreciation expenses for the year equaled \$293,451.

Figure A-6							
Capital Assets, net of Depreciation							
(Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total District		Total Change	
June 30,		June 30,		June 30,		June 30,	
2009	2008	2009	2008	2009	2008	2008-2009	
Land	\$ 51	51	-	-	51	51	0.00%
Improvements	79	39	-	-	79	39	102.56%
Buildings	3,804	3,851	-	-	3,804	3,851	-1.22%
Furniture and equipment	735	710	57	66	792	776	2.06%
Totals	<u>\$ 4,669</u>	<u>4,651</u>	<u>57</u>	<u>66</u>	<u>4,726</u>	<u>4,717</u>	<u>0.19%</u>

Long-Term Debt

At year end, the District had \$740,000 in general obligation bonds outstanding \$1,040,000 in revenue bonds outstanding and \$197,545 in early retirement obligations. Additional information about the Districts long-term debt is presented in Note 6 to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Enrollment declined and budget guarantee reduction will be reflected in the fiscal 2011 budget.
- There will be no new money for fiscal 2010. The expenditures for fiscal 2010 are projected to increase by \$200,000. This scenario will require critical review of utilization of staff for fiscal 2011.

- Reducing agricultural land valuation during fiscal 2004 negatively impacted our PPEL levy by approximately \$55,000 a year. Over a ten year period, PPEL receipts will be less by at least \$550,000.
- During fiscal year 2009 expenditures in the General Fund were slightly greater than revenue. The District will need to closely monitor staffing and expenses district wide.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deann Lansink, School Business Manager, South O'Brien Community School District, 206 S. Rutledge St., Paullina, Iowa 51046.

Basic Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities School Nutrition	Total
Assets			
Cash	\$ 2,568,070	40,750	2,608,820
Receivables:			
Property tax:			
Current year	45,026	-	45,026
Succeeding year	2,849,879	-	2,849,879
Income surtax - succeeding year	267,615	-	267,615
Due from other governments	138,100	-	138,100
Other receivables	45,693	207	45,900
Inventories	6,619	15,310	21,929
Bond issue costs	4,896	-	4,896
Capital assets, net of accumulated depreciation	4,668,629	56,613	4,725,242
Total assets	<u>10,594,527</u>	<u>112,880</u>	<u>10,707,407</u>
Liabilities			
Accounts payable	22,840	-	22,840
Accrued payroll and benefits	529,292	10,770	540,062
Accrued interest payable	20,692	-	20,692
Deferred revenue:			
Federal programs	34,377	-	34,377
Succeeding year property tax	2,849,879	-	2,849,879
Long-term liabilities:			
Portion due within one year:			
Capital loan notes	175,000	-	175,000
Revenue bonds	190,000	-	190,000
Early retirement	38,212	-	38,212
Portion due after one year:			
Capital loan notes	565,000	-	565,000
Revenue bonds	850,000	-	850,000
Early retirement	159,333	-	159,333
Total liabilities	<u>5,434,625</u>	<u>10,770</u>	<u>5,445,395</u>
Net assets			
Invested in capital assets, net of related debt	2,888,629	56,613	2,945,242
Restricted for:			
Management levy	96,825	-	96,825
Physical plant and equipment levy	297,245	-	297,245
Capital projects	662,220	-	662,220
Categorical funding	27,254	-	27,254
Unrestricted	1,187,729	45,497	1,233,226
Total net assets	<u>\$ 5,159,902</u>	<u>102,110</u>	<u>5,262,012</u>

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Total
Functions/Programs:				
Governmental activities:				
Instruction:	\$ 4,445,506	202,716	1,040,422	(3,202,368)
Support services:				
Student services	166,623	-	-	(166,623)
Instructional staff services	249,925	-	-	(249,925)
Administration services	702,128	-	-	(702,128)
Operation and maintenance of plant services	484,807	-	15,555	(469,252)
Transportation services	311,771	1,589	-	(310,182)
	1,915,254	1,589	15,555	(1,898,110)
Non-instructional programs:				
Food service operations	-	-	-	-
Other expenditures:				
AEA flowthrough	257,835	-	257,835	-
Long-term debt interest and services	68,371	-	-	(68,371)
Facilities acquisition and construction	9,143	-	2,263	(6,880)
Depreciation (unallocated) *	282,956	-	-	(282,956)
	618,305	-	260,098	(358,207)
Total governmental activities	6,979,065	204,305	1,316,075	(5,458,685)

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Total
Business type activities:				
Non-instructional programs:				
Nutrition services	244,727	119,821	127,512	2,606
Total	<u>\$ 7,223,792</u>	<u>324,126</u>	<u>1,443,587</u>	<u>(5,456,079)</u>
General Revenues:				
Property tax levied for:				
General purposes				2,311,448
Management levy				149,985
Capital outlay				266,090
Income surtax:				
General purposes				341,959
Capital outlay				227,973
Statewide sales and services tax				485,799
Unrestricted state grants				2,380,429
Unrestricted investment earnings				21,413
Other				3,382
Total general revenues			<u>6,188,478</u>	<u>6,188,478</u>
Change in net assets				
Net assets beginning of year			729,793	2,606
Net assets end of year			<u>4,430,109</u>	<u>99,504</u>
			<u>\$ 5,159,902</u>	<u>102,110</u>
				<u>5,262,012</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2009

Assets

	General	Student Activity	Management	Physical Plant and Equipment Levy	Capital Projects	Total
Cash	\$ 1,622,816	55,881	96,349	185,825	607,199	2,568,070
Receivables:						
Property tax:						
Current year	38,175	-	2,477	4,374	-	45,026
Succeeding year	2,420,012	-	150,000	279,867	-	2,849,879
Income surtax - succeeding year	160,569	-	-	107,046	-	267,615
Due from other governments	73,294	-	-	-	64,806	138,100
Other receivables	45,223	470	-	-	-	45,693
Inventory	6,619	-	-	-	-	6,619
Total assets	\$ 4,366,708	56,351	248,826	577,112	672,005	5,921,002

Liabilities and Fund Balances

Liabilities:						
Accounts payable	\$ 10,588	466	2,001	-	9,785	22,840
Accrued payroll and benefits	529,292	-	-	-	-	529,292
Deferred revenue:						
Federal programs	34,377	-	-	-	-	34,377
Succeeding year property tax	2,420,012	-	150,000	279,867	-	2,849,879
Succeeding year income surtax	160,569	-	-	107,046	-	267,615
Total liabilities	3,154,838	466	152,001	386,913	9,785	3,704,003
Fund balances:						
Reserved for capital projects	-	-	-	-	662,220	662,220
Reserved for categorical funding	27,254	-	-	-	-	27,254
Unreserved	1,184,616	55,885	96,825	190,199	-	1,527,525
Total fund balances	1,211,870	55,885	96,825	190,199	662,220	2,216,999
Total liabilities and fund balances	\$ 4,366,708	56,351	248,826	577,112	672,005	5,921,002

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2009

Total fund balances of governmental funds (Exhibit C)	\$ 2,216,999
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**Amounts reported for governmental activities in the Statement of Net Assets
are different because:**

Income surtax receivable at June 30, 2009 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	267,615
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Bond issue cost are reported in the governmental activities but are not reported in the governmental funds as they do not provide current resources	4,896
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,668,629
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(20,692)
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Long-term liabilities are not due and payable in the current period and, are not reported as liabilities in the governmental funds.

Capital loan notes	(740,000)	
Revenue bonds	(1,040,000)	
Early retirement	<u>(197,545)</u>	<u>(1,977,545)</u>

Net assets of governmental activities (Exhibit A)	<u>\$ 5,159,902</u>
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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2009

	General	Student Activity	Management	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Revenues:							
Local sources:							
Local tax	\$ 2,492,838	-	149,985	387,017	485,799	-	3,515,639
Tuition	189,657	-	-	-	-	-	189,657
Other	86,700	185,987	13,552	1,685	2,263	-	290,187
State sources	3,143,349	-	113	205	-	-	3,143,667
Federal sources	299,451	-	-	-	-	-	299,451
Total revenues	6,211,995	185,987	163,650	388,907	488,062	-	7,438,601
Expenditures:							
Current:							
Instruction	4,197,537	181,958	37,279	-	-	-	4,416,774
Support services:							
Student services	166,623	-	-	-	-	-	166,623
Instructional staff services	278,087	-	-	21,500	-	-	299,587
Administration services	634,383	-	67,745	-	-	-	702,128
Operation and maintenance of plant services	452,075	-	24,003	64,749	-	-	540,827
Transportation services	299,342	-	12,429	-	-	-	311,771
	1,830,510	-	104,177	86,249	-	-	2,020,936
Non-instructional programs:							
Food service operations	-	-	-	-	-	-	-

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2009

	General	Student Activity	Management	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Other expenditures:							
AEA flowthrough	257,835	-	-	-	-	-	257,835
Long-term debt:							
Principal	-	-	-	-	-	366,449	366,449
Interest	-	-	-	-	-	72,531	72,531
Services	-	-	-	350	-	-	350
Facilities acquisition and construction	-	-	-	30,226	108,350	-	138,576
	257,835	-	-	30,576	108,350	438,980	835,741
Total expenditures	6,285,882	181,958	141,456	116,825	108,350	438,980	7,273,451
Excess (deficiency) of revenues over (under) expenditures	(73,887)	4,029	22,194	272,082	379,712	(438,980)	165,150
Other financing sources (uses):							
Sale of property	4,138	-	-	-	-	-	4,138
Operating transfers in	-	-	-	-	-	438,980	438,980
Operating transfers out	-	-	-	(212,895)	(226,085)	-	(438,980)
Total other financing sources (uses)	4,138	-	-	(212,895)	(226,085)	438,980	4,138
Net change in fund balances	(69,749)	4,029	22,194	59,187	153,627	-	169,288
Fund balances beginning of year	1,281,619	51,856	74,631	131,012	508,593	-	2,047,711
Fund balances end of year	\$ 1,211,870	55,885	96,825	190,199	662,220	-	2,216,999

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2009

Net change in fund balances - total governmental funds (Exhibit E)	\$ 169,288
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**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities. This represents the change in income surtax receivable from FY09 to FY10

	267,615
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Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	300,080	
Depreciation expense	<u>(282,956)</u>	17,124

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

	366,449
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	12,183	
Early retirement	<u>(105,880)</u>	(93,697)

Bond issuance costs are reported in governmental funds as expenditures. However, these amounts are deferred and amortized in the Statement of Activities

	(1,213)
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Unearned revenues from prior periods not included in governmental funds.

	(1,496)
--	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

	<u>5,723</u>
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Change in net assets of governmental activities (Exhibit B)	<u>\$ 729,793</u>
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See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2009

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ 119,821
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	65,683
Benefits	27,594
Services	2,004
Supplies	138,961
Depreciation	10,485
Total operating expenses	<u>244,727</u>
Operating (loss)	<u>(124,906)</u>
Non-operating revenues:	
State sources	3,265
Federal sources	123,830
Interest income	417
	<u>127,512</u>
Net profit	2,606
Net assets beginning of year	<u>99,504</u>
Net assets end of year	<u>\$ 102,110</u>

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2009

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 116,651
Cash payments to employees for services	(93,504)
Cash payments to suppliers for goods or services	<u>(121,182)</u>
Net cash (used by) operating activities	<u>(98,035)</u>
Cash flows from non-capital financing activities:	
State grants received	3,265
Federal grants received	<u>97,836</u>
Net cash provided by non-capital financing activities	<u>101,101</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	(1,105)
Cash flows from investing activities:	
Interest on investments	<u>417</u>
Net increase in cash and cash equivalents	2,378
Cash and cash equivalents beginning of year	<u>38,372</u>
Cash and cash equivalents end of year	<u>\$ 40,750</u>
Reconciliation of operating (loss) to net cash used by operating activities:	
Operating (loss)	\$ (124,906)
Adjustments to reconcile operating (loss) to net cash (used by) operating activities:	
Depreciation	10,485
Commodities used	25,994
Decrease in other receivables	96
(Increase) in inventory	(6,211)
(Decrease) in accrued payroll and benefits	(227)
(Decrease) in unearned revenue	<u>(3,266)</u>
	<u>\$ (98,035)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received federal commodities valued at \$25,994.

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2009

	Private Purpose Trusts	Foundation/ Scholarships
Assets		
Cash	\$ 16,002	
Total assets	16,002	
Net Assets		
Foundation	11,613	
Reserved for scholarships	4,389	
Total net assets	\$ 16,002	

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2009

	Private Purpose Trusts <u>Foundation/ Scholarships</u>
Additions:	
Local sources:	
Miscellaneous	\$ 47,860
Total additions	<u>47,860</u>
Deductions:	
Support services:	
Scholarships	<u>45,808</u>
Total deductions	<u>45,808</u>
Change in net assets	2,052
Net assets beginning of year	<u>13,950</u>
Net assets end of year	<u>\$ 16,002</u>

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

South O'Brien Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Paullina, Primghar and Sutherland Iowa, and agricultural area in O'Brien, Cherokee and Clay Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, South O'Brien Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. South O'Brien Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

In June 2002, the District established the South O'Brien Community School District Foundation by appointing a board of trustees to incorporate a foundation under the Iowa Non-Profit Corporation Act, Iowa Code Chapter 504A. The focus of the Foundation is exclusively for charitable, scientific and educational purposes of the District. The financial activity of the Foundation is included in the financial statements of the South O'Brien Community School District as a blended component unit for the year ended June 30, 2009.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Butler County Assessor Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to treat all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for funds raised by the one cent School Infrastructure Local Option Sales Tax. These funds are being used for debt retirement and infrastructure expenses.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Funds are used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents - The cash balances of most District funds are invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2008.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of \$500.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-50 years
Improvements other than buildings	15-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent federal program funds.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability is deemed to be immaterial at June 30, 2009.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures did not exceed the amount budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$293,803 pursuant to Rule 29-7 under the Investment Company Act of 1940.

Credit Risk: The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Services.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 51,351	-	-	51,351
Capital assets being depreciated:				
Buildings	6,654,384	85,192	-	6,739,576
Improvements	160,037	44,241	-	204,278
Furniture and equipment	2,788,391	170,647	10,427	2,948,611
Total capital assets being depreciated	9,602,812	300,080	10,427	9,892,465
Less accumulated depreciation for:				
Buildings	2,802,761	133,583	-	2,936,344
Improvements	121,571	3,079	-	124,650
Furniture and equipment	2,078,326	146,294	10,427	2,214,193
Total accumulated depreciation	5,002,658	282,956	10,427	5,275,187
Total capital assets being depreciated, net	4,600,154	17,124	-	4,617,278
Governmental activities, capital assets, net	\$ 4,651,505	17,124	-	4,668,629
Business type activities:				
Furniture and equipment	\$ 175,905	1,105	3,949	173,061
Less accumulated depreciation	109,912	10,485	3,949	116,448
Business type activities capital assets, net	\$ 65,993	(9,380)	-	56,613
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				282,956
Business Type activities:				
Food service operations				\$ 10,485

(4) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$257,835 for year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(5) Risk Management

South O'Brien Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009 are summarized as follows:

	<u>Revenue Bonds</u>	<u>Capital Loan Notes</u>	<u>Notes Payable</u>	<u>Early Retirement</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance beginning of year	\$1,225,000	910,000	11,449	93,667	12,183	2,252,299
Additions	-	-	-	149,842	-	149,842
Reductions	<u>185,000</u>	<u>170,000</u>	<u>11,449</u>	<u>45,964</u>	<u>12,183</u>	<u>424,596</u>
Balance end of year	<u>\$1,040,000</u>	<u>740,000</u>	<u>-</u>	<u>197,545</u>	<u>-</u>	<u>1,977,545</u>

General Obligation Capital Loan Notes

On September 9, 2004, the District issued \$1,000,000 general obligation capital loan notes with an interest rate of 1.650% - 3.650% to provide funds for capital improvements. On April 1, 2005, the District issued \$495,000 general obligation capital loan notes with an interest rate of 3.100% - 4.600% to provide funds for capital improvements.

The annual debt service requirements to maturity for general obligation capital loan notes are as follow:

<u>Year Ending June 30,</u>	<u>\$495,000 Capital Loan Notes</u>		<u>\$1,000,000 Capital Loan Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 60,000	8,955	115,000	16,643	175,000	25,598
2011	65,000	7,005	120,000	12,963	185,000	19,968
2012	65,000	4,795	120,000	8,822	185,000	13,617
2013	<u>70,000</u>	<u>2,520</u>	<u>125,000</u>	<u>4,562</u>	<u>195,000</u>	<u>7,082</u>
Total	<u>\$260,000</u>	<u>23,275</u>	<u>480,000</u>	<u>42,990</u>	<u>740,000</u>	<u>66,265</u>

Revenue Bonds

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues by the District. The bonds are not a general obligation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

1. \$174,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
2. All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
3. Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
4. Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The District was in compliance with all of the provisions during the year ended June 30, 2009.

Revenue bonds as of June 30, 2009 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amounts</u>
Governmental Activities	3.50% - 4.050%	<u>\$1,225,000</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 190,000	39,998
2011	200,000	32,872
2012	210,000	25,372
2013	215,000	17,498
2014	<u>225,000</u>	<u>9,113</u>
Total	<u>\$1,040,000</u>	<u>124,853</u>

Notes Payable

The District's Special Assessment debt with O'Brien County was fully retired in fiscal year 2009.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages of 55 and 64 and have completed at least 20 years of service in the District. Employees must complete an application at least one full year in advance, and it is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a maximum of one-half of one percent of the employee's current teaching salary as a base salary which is multiplied by the number of years of service the employee has rendered to the District. This total amount shall be in addition to the amount provided for salary in the contract for the final year of employment. Early retirement benefits paid during the year ended June 30, 2009 totaled \$45,964.

The non-current portion of the early retirement to be recorded in the government-wide financial statements.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$245,099, \$221,363, and \$205,969 respectively, equal to the required contributions for each year.

(8) Interfund Transfers

The detail of Interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$438,980</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Required Supplementary Information

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2009

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts	Final to Actual Variance
	Actual	Actual	Actual	Original	Final
Revenues:					
Local sources	\$ 3,995,483	120,238	4,115,721	4,068,435	47,286
State sources	3,143,667	3,265	3,146,932	3,426,733	(279,801)
Federal sources	299,451	123,830	423,281	565,000	(141,719)
Total revenues	<u>7,438,601</u>	<u>247,333</u>	<u>7,685,934</u>	<u>8,060,168</u>	<u>(374,234)</u>
Expenditures/expenses:					
Instruction	4,416,774	-	4,416,774	4,881,350	464,576
Support services	2,020,936	-	2,020,936	2,947,050	926,114
Non-instructional programs	-	244,727	244,727	260,000	15,273
Other expenditures	835,741	-	835,741	1,056,569	220,828
Total expenditures/expenses	<u>7,273,451</u>	<u>244,727</u>	<u>7,518,178</u>	<u>9,144,969</u>	<u>1,626,791</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	165,150	2,606	167,756	(1,084,801)	1,252,557
Other financing sources (uses)	<u>4,138</u>	<u>-</u>	<u>4,138</u>	<u>5,001</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	169,288	2,606	171,894	(1,079,800)	1,252,557
Balance beginning of year	<u>2,047,711</u>	<u>99,504</u>	<u>2,147,215</u>	<u>1,801,350</u>	<u>345,865</u>
Balance end of year	<u>\$ 2,216,999</u>	<u>102,110</u>	<u>2,319,109</u>	<u>721,550</u>	<u>1,598,422</u>

See accompanying independent auditor's report.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2009, expenditures did not exceed the budgeted amount in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
General Athletics	\$ -	63,425	61,419	2,006
Weight Room Club	60	-	-	60
HS Football Club	81	-	26	55
HS General Athletics Resale	1,324	-	1,134	190
Wolverine Club	-	100	-	100
HS Student Council	2,050	3,952	5,609	393
FFA	6,491	37,828	37,758	6,561
Spanish Club	50	208	-	258
HS Cheerleaders	-	6,045	5,881	164
HS Science Club	464	3,173	1,155	2,482
National Honor Society	413	655	1,068	-
Model UN Club	312	1,111	1,166	257
HS Art Club	288	200	-	488
Dinner Theater Club	3,897	4,372	5,473	2,796
PA Book Club	-	150	-	150
HS Instrumental Music Resale	-	5,471	3,274	2,197
HS Vocal Music Resale	271	914	-	1,185
HS Activity	3,722	3,297	3,345	3,674
Yearbook Club	5,704	11,016	13,656	3,064
HS Speech Club	-	275	275	-
JH Athletics	-	2,587	2,587	-
JH Student Council	501	393	196	698
El Student Council	5,105	26,736	28,475	3,366
MS Marketing	2,002	942	835	2,109
Kindergarten Activity	183	-	-	183
General Activity Account	-	-	-	-
Clothes for Kids	120	1,500	672	948
Class of 2008	834	-	666	168
Class of 2009	901	552	1,314	139
Class of 2010	2,055	5,066	4,985	2,136
Class of 2011	590	660	75	1,175
Class of 2012	-	530	-	530
District Football	-	-	-	-
Intramural Basketball	160	-	-	160
Elementary Playground	14,278	4,829	914	18,193
Total	\$ 51,856	185,987	181,958	55,885

See accompanying independent auditor's report.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Private Purpose Trusts

Year ended June 30, 2009

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
Ray Ginger Scholarship	\$ 1,983	5	200	1,788
Foundation	9,422	47,799	45,608	11,613
Dell Scholarship	<u>2,545</u>	<u>56</u>	<u>-</u>	<u>2,601</u>
Total	<u>\$ 13,950</u>	<u>47,860</u>	<u>45,808</u>	<u>16,002</u>

See accompanying independent auditor's report.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Six Years

	Modified Accrual Basis				
	2009	2008	2007	2006	2005
Revenues:					
Local sources:					
Local tax	\$ 3,515,639	3,313,037	3,314,347	3,431,676	3,638,870
Tuition	189,657	134,946	136,085	121,513	104,325
Other	290,187	327,538	364,765	351,465	351,552
State sources	3,143,667	3,231,147	3,010,114	2,958,051	2,725,862
Federal sources	299,451	287,977	447,641	313,666	324,853
Total	<u>\$ 7,438,601</u>	<u>7,294,645</u>	<u>7,272,952</u>	<u>7,176,371</u>	<u>7,145,462</u>
					<u>6,842,449</u>
Expenditures:					
Instruction	\$ 4,416,774	4,288,971	4,169,696	4,041,908	3,867,494
Support services:					
Student	166,623	156,887	158,246	262,464	274,449
Instructional staff	299,587	253,012	239,722	312,508	388,374
Administration	702,128	685,071	679,553	672,739	583,215
Operation and maintenance of plant	540,827	503,439	543,007	586,845	480,195
Transportation	311,771	426,176	427,034	349,115	288,567
Other expenditures:					
Facilities acquisition	138,576	339,141	163,257	2,556,606	914,354
Debt service:					
Principal	366,449	356,454	346,454	331,454	111,454
Interest and services	72,881	90,056	101,181	173,909	51,599
AEA flowthrough	257,835	252,401	244,936	239,076	235,162
Total	<u>\$ 7,273,451</u>	<u>7,351,608</u>	<u>7,073,086</u>	<u>9,526,624</u>	<u>7,194,863</u>
					<u>6,544,170</u>

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of the
South O'Brien Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of South O'Brien Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 29, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South O'Brien Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of South O'Brien Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of South O'Brien Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects South O'Brien Community School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of South O'Brien Community School District's financial statements that is more than inconsequential will not be prevented or detected by South O'Brien Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by South O'Brien Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

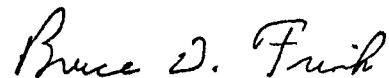
As part of obtaining reasonable assurance about whether South O'Brien Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. We noted no instances of non-compliance or other matters to be described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

South O'Brien Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit South O'Brien Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of South O'Brien Community School District and other parties to whom South O'Brien Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South O'Brien Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 29, 2010

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-09 SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

I-B-09 AUDITOR DRAFTING OF THE FINANCIAL STATEMENTS AND RELATED FOOTNOTE DISCLOSURES

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 112, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy; we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget - Expenditures for the year ended June 30, 2009, did not exceed the certified budget amount in any of the four functions.

II-B-09 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-09 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
John Muller Employee spouse Muller Furniture	Carpet	\$ 158
Paul Miller Employee spouse Whiskey Creek Log Homes	Locker replacement	<u>1,100</u>
		<u>\$1,258</u>

In accordance with Chapter 279.7A of the Code of Iowa, the transaction do not appear to exceed the allowable limit of \$2,500.

Recommendation - The District should review these expenditures annually to ensure compliance with the Code of Iowa.

Response - We will review these on an annual basis and consult with our attorney when needed.

Conclusion - Response accepted.

II-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-09 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

II-G-09 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

II-H-09 Certified Annual Report - The Certified Annual Report was certified timely with the Department of Education.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:
(continued)

- II-I-09 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-J-09 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-K-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance		\$ -
Statewide sales and services tax revenue		485,799
Expenditures/transfers out:		
School infrastructure:		
Buildings and improvements	\$ 108,350	
Debt service for school infrastructure:		
Revenue bond	<u>226,085</u>	<u>334,435</u>
Ending balance		<u>\$151,364</u>